

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name		County
Fiscal Year End	Opinion Date		Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature	Printed Name		License Number	

RIVER ROUGE HOUSING COMMISSION

Financial Statements

June 30, 2006

Audited by

JOHN C. DIPIERO, P.C.

Certified Public Accountant

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As management of the River Rouge Housing Commission we offer reviewers of this audit report this narrative discussion and analysis of the River Rouge Housing Commission's financial activities for the FYE 6/30/06. This discussion and analysis letter of the River Rouge Housing Commission's financial performance should be read in conjunction with the auditor's opinion letter and the following Financial Statements.

The combined financial statements reflect all of the Commission's federally funded programs and activities in one place. The Commission reports all its activities and programs using the Enterprise Fund type model. HUD encourages PHAs to use this accounting method as it is normally used to account for "business-type activities" - activities similar to those found in the private sector. Enterprise Fund types use the accrual method of accounting, the same accounting method employed by most private-sector businesses. Under this method, revenues and expenditures may be reported as such even though no cash transaction has actually taken place.

Overview of the Financial Statements

This annual report contains this *Management & Discussion Analysis* report, the *Basic Financial Statements* and the *Notes to the Financial Statements*. This report also contains the Financial Data Schedule (FDS) as referenced in the section of *Supplemental Information*. The Commission's financial statements are presented as fund financial statements because the Commission only has proprietary funds.

Required Financial Statements

The Statement of Net Assets includes the Commission's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and obligations of the Commission creditors (liabilities). It also provides the basis for evaluating the liquidity and financial flexibility of the Commission.

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Assets. This statement measures the success of the Commission's operations over the past year and can be used to determine whether the Commission has successfully recovered all its costs through its user fees and other charges, profitability and credit worthiness.

The final required financial statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing and financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements and provide more detailed data.

Supplemental Information

This report also contains the Financial Data Schedule (FDS) as referenced in the section of *Supplemental Information*. HUD has established Uniform Financial Reporting Standards that require Housing Commissions to submit financial information electronically to HUD using the FDS format. This financial information was electronically transmitted to the Real Estate Assessment Center (REAC) and is required to be included in the audit reporting package.

The Financial Data Schedule reports the Commission's operations in more detail. The Commission reports all its activities using Enterprise fund types. These funds are used to show activities that operate more like commercial enterprises. The Financial Data Schedule is organized by the government Catalogue of Financial Domestic Assistance (CFDA) numbers.

River Rouge Housing Commission Programs:

Low Rent Public Housing: Under this program, the Housing Commission rents units that it owns to low-income elderly and family households. This program is operated under an Annual Contributions Contract with HUD. HUD provides Operating Subsidies to enable the Housing Commission to lease these units at a rate that is based on 30% of the household income.

Capital Fund Program: Under this program, the Housing Commission is awarded funds each year to use for Capital Needs. The Housing Commission also has the ability to use up to 20% of these funds, if need be, to supplement Operating Subsidies. This program is the primary funding source for physical improvements to its properties.

Section 8 Housing Choice Voucher Program: Under this program, the Housing Commission administers contracts with independent landlords to provide housing for low-income households. These units are not owned by the Housing Commission. The Housing Commission subsidizes the family's rent via a "Housing Assistance Payment" made directly to the landlord. HUD provides subsidy to the Housing Commission to enable the Housing Commission to set the rental rates at 30% of a participant's income.

Entity-Wide Financial Highlights:

The following Federal Assistance was received during FYE 6/30/06:

	<u>FYE</u> <u>6/30/06</u>	<u>FYE</u> <u>6/30/05</u>	<u>Dollar</u> <u>Change</u>	<u>Per</u> <u>Cent</u> <u>Change</u>
Public Housing Operating Subsidy	591,464	634,280	(42,816)	-6.75%
Capital Fund Program Grants	718,295	1,089,385	(371,090)	-34.06%
Sec. 8 Voucher	<u>1,597,561</u>	<u>1,428,045</u>	169,516	11.87%
Total	2,907,320	3,151,710	(244,390)	-7.75%

While the subsidy for Public Housing decreased, it should be noted that the subsidy for Public Housing should have increased rather than decreased. The decrease is due to the HUD pro-ration factor. If subsidy had been paid in both years at full eligibility, we would have received \$30,780 more subsidy in FYE 6/30/06 (\$677,345) than in FYE 6/30/05 (\$646,565). However, FFY 2004 subsidy (our FYE 6/30/05) was paid at 98.1% of full eligibility. The entire FYE 6/30/05 subsidy was paid at this pro-rata rate. The FFY 2005 subsidy was paid at only 88.8% of full eligibility. FFY 2005 subsidy for our agency covered the first six months of our fiscal year, i.e. 7/1/05 - 12/31/05. The FFY 2006 subsidy was paid at only 86.02% of full eligibility. FFY 2006 subsidy for our agency covered the last six months of our fiscal year, i.e. 1/1/06 - 6/30/06. The pro-ration factors cost the Housing Commission \$12,285 in FYE 6/30/05 while the cost for FYE 6/30/06 was \$85,881.

The decrease in Capital Fund Grants was due to the fact work projects during FYE 6/30/06 proceeded along at a slower pace than in FYE 6/30/05.

The increase in Sec. 8 Voucher subsidy is likely due to the addition of 149 new vouchers that became effective on 8/1/04. So, for FYE 6/30/05, we only received funding for 11 months for these units whereas during FYE 6/30/06 we were funded for these units for the entire year.

The following represents changes in the Balance Sheet:

	<u>FYE</u> <u>6/30/06</u>	<u>FYE</u> <u>6/30/05</u>	<u>Dollar</u> <u>Change</u>	<u>Per</u> <u>Cent</u> <u>Change</u>
Cash & Investments	640,065	853,780	(213,715)	-25.03%
Total Current Assets, net of inter-program (due from)	835,491	1,142,523	(307,032)	-26.87%
Fixed Assets, Net of Depreciation	6,093,512	6,399,832	(306,320)	-4.79%
Total Liabilities, net of inter-program (due to)	195,052	859,694	(664,642)	-77.31%

Total Equity/Net Assets	6,733,951	6,682,661	51,290	0.77%
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Cash and Investments decreased substantially due mainly to two factors:

1. There were many more unpaid bills (liabilities) at 6/30/05 than at 6/30/06, resulting in a much larger cash balance as of 6/30/05 than a year later.
2. Due to changes in the way HUD disburses Sec. 8 Voucher funds for new increments. HUD now provides full funding for new increments at 100% of Budget Authority from day one of the new increment. Since we were leasing up the new increment during 6/30/05, this resulted in excess cash in the Sec. 8 program as of 6/30/05. We still have excess cash in that program as of 6/30/06, but since the units were substantially leased up for the entire fiscal year, we used up some of the excess cash we received during FYE 6/30/05.
3. At 6/30/05 we had received fire insurance proceeds of approximately \$125,000. All of this settlement was reflected in our cash balance as of 6/30/05. During FYE 6/30/06, we repaired the fire unit and used up this cash.

Total Current Assets decreased mainly due to the decrease in cash and investments as explained above. There was also a large decrease in HUD Accounts Receivable at 6/30/06.

Fixed Assets increased by \$337,359; this increase represents several capital projects funded through the Capital Fund Programs. These projects include several comprehensive improvements projects (see details below). Although Fixed Assets increased by \$337,359, this was more than offset by depreciation and disposition charges of \$643,679, resulting in the net decrease stated in the above table.

Total Liabilities decreased due to four factors.

1. At 6/30/05 we had approximately \$125,000 in fire insurance proceeds classified as deferred revenue. We had no such corresponding liability at 6/30/06.
2. At 6/30/05 we booked a payable to HUD in our Sec. 8 program in the amount of \$484,675. There was no such corresponding payable at 6/30/06 due to accounting rule changes in the Sec. 8 program. In the past, any excess subsidy was booked as a payable to HUD at the year-end. With the issuance of PIH Notice #2006-3, all excess subsidy is classified as equity instead of a liability.
3. At 6/30/05 we had some large unpaid water bills due to the late (and disputed amounts) billing from the City, representing almost 6 months of water bills. At 6/30/06, we had water bills payable for only about 1-1/2 months.
4. At 6/30/05, we had contract retention balances owed to our CFP contractors in the amount of \$37,000. There was no corresponding payable due on our Capital Fund Program as of 6/30/06.

Total Net Assets (Equity) remained flat.

The following schedule compares the Revenues and Expenses for the current and prior fiscal years:

Statement of Revenues, Expenses, and Changes in Net Assets

	<u>FYE</u> <u>6/30/06</u>	<u>FYE</u> <u>6/30/05</u>	<u>Dollar</u> <u>Change</u>	<u>Per</u> <u>Cent</u> <u>Change</u>
Revenues :				
Tenant Revenue	482,530	552,818	(70,288)	-12.7%
Other Revenue	<u>20,312</u>	<u>7,236</u>	<u>13,076</u>	180.7%
Total PHA generated Revenue	502,842	560,054	(57,212)	-10.2%
Operating/Soft Cost Subsidies	2,568,760	2,357,729	211,031	9.0%
Capital Grants (Hard costs)	<u>338,560</u>	<u>793,981</u>	<u>(455,421)</u>	-57.4%
Total Revenue	3,410,162	3,711,764	(301,602)	-8.1%
Expenses :				
Administrative	679,338	546,569	132,769	24.3%
Tenant Services	3,944	47,772	(43,828)	-91.7%
Utilities	221,150	155,884	65,266	41.9%
Maintenance	533,520	550,271	(16,751)	-3.0%
General	104,434	189,615	(85,181)	-44.9%
Casualty Losses	48,946	15,178	33,768	222.5%
Housing Assistance Payments	1,607,091	1,256,991	350,100	27.9%
Depreciation	<u>645,124</u>	<u>589,987</u>	<u>55,137</u>	9.3%
Total Expenses	3,843,547	3,352,267	491,280	14.7%
Net Increase (Decrease)	(433,385)	359,497		

Revenues:

River Rouge Housing Commission's primary revenue sources are subsidies and grants received by HUD. For FYE 6/30/06, revenue generated by the Commission accounted for \$502,842 (or 15% of total revenue), while HUD contributions accounted for \$2,907,320 (or 85% of total revenue). Tenant revenue decreased due to the fact that we now have about 1/3 of our tenants who qualify as negative renters. This means that these tenants not only pay zero dollars for rent, but we also issue a check to them each month to help them pay their utility bills. This is a drastic change in our rent roll and has severely impacted our tenant revenue numbers.

Expenses:

Total Expenses for FYE 6/30/05 were \$3,352,267 while for FYE 6/30/06 the total was \$3,843,547. This represents a 14.7% increase in our Operating Costs. The following chart shows the cost areas that increased the most:

	<u>FYE</u> 6/30/06	<u>FYE</u> 6/30/05	<u>Dollar</u> <u>Change</u>	<u>Per</u> <u>Cent</u> <u>Change</u>
Compensated Absences	28,153	(11,804)	39,957	338.5%
Sundry Administrative Expenses	214,647	153,754	60,893	39.6%
Water	170,458	141,821	28,637	20.2%
Electricity	18,252	9,918	8,334	84.0%
Natural Gas	32,440	4,145	28,295	682.6%
Insurance (Liability & Property)	88,157	70,600	17,557	24.9%
Casualty Losses	48,946	15,178	33,768	222.5%
Housing Assistance Payments	1,607,091	1,256,991	350,100	27.9%
Depreciation	645,124	589,987	55,137	9.3%

With regard to the increase in Sundry Administrative Expense, the biggest increase came in the area of ongoing computer costs. While this cost for FYE 6/30/05 was just over \$6,000, the cost for FYE 6/30/06 escalated to just over \$31,000. Most other sundry administrative costs increased as well. Telephone costs and office supplies both increased approximately 50%; postage more than doubled; and eviction costs increased by 35%.

All utilities increased due to increased rates; however, the astronomical increase in Natural gas is due to the fact that the gas company presented us with a number of old bills that had not been paid by the tenants responsible for them and demanded that we pay these bills. This was approximately \$20,000 of expense.

The increase in HAP is due to increased lease-up of the new increment.

Budget Analysis:

A Low Rent Public Housing Operating Budget for FYE 6/30/06 was presented to and approved by the Board of Commissioners. Subsequently, we had reason to prepare and present a Budget Revision to the Board and they approved it. Actual results were in line with the revised budgeted amounts.

Entity-Wide Operational Highlights:

The River Rouge Housing Commission provided the following housing for low-income elderly and low-income families:

	<u>FYE</u> 6/30/06	<u>FYE</u> 6/30/05
Low Rent Public Housing	300	300
Sec. 8 Voucher	249	249

During FYE 6/30/06, River Rouge Housing Commission maintained a lease-up rate of 95.5% in its Public Housing Program and a lease-up rate of 97.4% in its Section 8 program. The Public Housing lease-up rate is under the HUD-prescribed target of 97%. We are working to increase our lease-up rate.

During FYE 6/30/06, our Capital Fund Program work projects included:

- Window replacement
- Canopies rebuilt
- New computer system
- New Phone system
- Upgrades to porches, ramps, and sidewalks
- Purchase of ranges and refrigerators
- Landscaping upgrades
- Upgrades to Community Building
- Office and Community Building security systems installed

Economic Factors and Next Year's Budget and Rates

The Housing Commission is primarily dependent upon HUD for the funding of operations as well as capital needs. Therefore, the Housing Commission is affected more by the Federal Budget than by local economic conditions. The funding of programs could be significantly affected by the Federal Budget.

The Housing Commission is very concerned about the effect of the Project-Based Management and Accounting requirements on a Commission of our size. We feel that the threshold of 250 units is too low to impose Project-Based Management and Accounting. After attending training, we feel that Project Based Management can make sense at larger authorities (1,000+ units), but simply does not make sense to impose these onerous regulations on a Housing Commission of our size. We only exceed the threshold by 50 units. It will cost us more to operate our Public Housing Program on a decentralized basis than the economically efficient centralized agency-wide basis as we operate today. And, given the current trend of federal budget cutting and the trend in limiting funding for Operating Subsidy in recent years, we will likely receive fewer subsidy dollars in the future but be expected to do substantially more with it to comply with Project-Based regulations.

A fundamental finding of the Harvard Cost Study, upon which the regulations governing Project Based Management are based, is that Public Housing Agencies have been, and continue to be, woefully underfunded by HUD. Yet, due to the federal budget crunch, HUD continues to only pay us only a portion of the subsidy that we are entitled to. So, to begin with, the subsidy at full eligibility is considered by the Harvard Cost Study to be insufficient; on top of that, HUD only pays us a portion of that figure. And, HUD continues to demand that we will be subject to the Project-Based regulations beginning 7/1/07. The conversion to Project Based Management will be costly, and it will be costly to maintain our Commission under Project Based Management. We will be less efficient. Inevitably, cuts in both staffing and other areas will have to be made that will result in cuts to services to our residents.

Although the Housing Commission remains concerned about the future levels of

HUD funding due to the state of the federal budget, we feel that we are both financially and operationally in a strong position to continue to provide safe, sanitary, and decent housing to our residents provided that Project Based Management is not implemented. If, however, Project Based Management is implemented, we are less sure of such a positive long-term outlook for our residents.

Request for Information

This financial report is designed to provide a general overview of the Commission's finances for all those with an interest in its finances. Questions or comments concerning any of the information contained in this report or request for additional information should be directed to:

Daryl Rush, Interim Executive Director
River Rouge Housing Commission
180 Visger Rd.
River Rouge, MI 48218

John C. DiPiero, P.C.

Certified Public Accountant

P. O. Box 378
Hemlock, Michigan 48626
Tel / Fax (989) 642-2092

Board of Commissioners
River Rouge Housing Commission
180 Visger Road
River Rouge, Michigan 48218

Independent Auditor's Report

I have audited the financial statements listed in the Table of Contents of the River Rouge Housing Commission as of and for the year ended June 30, 2006. These financial statements are the responsibility of the Housing Commission's management. My responsibility is to express an opinion on the financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the River Rouge Housing Commission as of March 31, 2006, and the changes in its financial position and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Required Supplemental Information

The Management's Discussion and Analysis and the required supplemental information are not a required part of the basic financial statements but is supplemental information required by the Governmental Auditing Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, I did not audit the information and express no opinion on it.

The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in my opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Combining Financial Statements

My audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Financial Data Schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the financial statements taken as whole.

Certified Public Accountant

March 2, 2007

RIVER ROUGE HOUSING COMMISSION
Statement of Net Assets
June 30, 2006

ASSETS

C-3031

CURRENT ASSETS

Cash	\$	640,065	
Accounts Receivable, net of allowance for doubtful accounts 28,929)		21,608	
Accounts Receivable- Other		54,683	
Prepaid Expenses		<u>119,135</u>	
Total Current Assets	\$		835,491

NON CURRENT ASSETS

Land	\$	341,343	
Buildings		3,441,197	
Furniture, Equipment- Dwellings		160,424	
Furniture, Equipment- Administrative		249,075	
Construction in Progress		8,143,895	
Accumulated Depreciation		<u>(6,242,422)</u>	
Total Non Current Assets			<u>6,093,512</u>

<u>TOTAL ASSETS</u>	\$	<u>6,929,003</u>
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RIVER ROUGE HOUSING COMMISSION
Statements of Net Assets
June 30, 2006

LIABILITIES

C-3031

CURRENT LIABILITIES

Accounts Payable	\$	29,909	
Accrued Liabilities		30,100	
Accrued Compensated Absences		6,147	
Tenants Security Deposit		48,380	
Deferred Revenue		3,487	
Other Current Liabilities		<u>21,703</u>	
<u>Total Current Liabilities</u>	\$		139,726

NONCURRENT LIABILITIES

Compensated Absences-noncurrent		<u>55,326</u>	
<u>Total Liabilities</u>	\$		195,052

NET ASSETS

Investment in Fixed Assets, net of related Debt	\$	6,093,512	
Unrestricted Net Assets		<u>835,491</u>	
<u>Total Net Assets</u>			<u>6,733,951</u>
<u>Total Liabilities and Net Assets</u>	\$		<u>6,929,003</u>

The Accompanying Notes are an Integral part of the Financial Statements

RIVER ROUGE HOUSING COMMISSION
Combined Statement of Revenue, Expenses, and Changes in Net Assets
For the year ended June 30, 2006

OPERATING REVENUE

Tenant Rental Revenue	\$ 449,692	
Tenant Revenue-Other	32,838	
HUD Grants	2,568,760	
Interest Income	16,121	
Other Income	<u>4,746</u>	
<u>Total Operating Revenue</u>		\$ 3,072,157

OPERATING EXPENSES

Administrative	\$ 679,338	
Tenant Services	3,944	
Utility Expenses	221,150	
Ordinary Maintenance	533,520	
General Expenses	<u>104,434</u>	
<u>Total Operating Expenses</u>		<u>1,542,386</u>
<u>Operating Income (Loss)</u>		\$ 1,529,771

NONOPERATING REVENUE (EXPENSES)

Housing Assistance Payments	\$ (1,607,091)	
Casualty Losses	(48,946)	
Loss on Sale of Assets	(555)	
Depreciation Expenses	<u>(645,124)</u>	
<u>Total NonOperating Revenue (Expenses)</u>		<u>(2,301,716)</u>
<u>Income (Loss) before Contributions</u>		\$ (771,945)

CAPITAL CONTRIBUTIONS

		<u>338,560</u>
<u>Changes in Net Assets</u>		\$ (433,385)
Total Net Assets- Beginning	\$ 6,682,661	
Prior Period Adjustment-correction of HUD funding	<u>484,675</u>	<u>7,167,336</u>
Total Net Assets- Ending		\$ <u>6,733,951</u>

The Accompanying Notes are an Integral part of the Financial Statements

RIVER ROUGE HOUSING COMMISSION
Combined Statement of Cash Flows
For the Year Ended June 30, 2006

Business Type Activities

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from Customers	\$ 529,434
Payments to Suppliers	(3,038,727)
Payments to Employees	(294,695)
HUD Grants	2,907,320
Other Receipts (Payments)	<u>20,312</u>
Net Cash Provided (Used) by Operating Activities	\$ 123,644

CASH FLOWS FROM CAPITAL AND
RELATED FINANCING ACTIVITIES

Purchases of Capital Assets	\$ <u>(337,359)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (213,715)
Balance- Beginning of Year	<u>853,780</u>
Balance- End of Year	\$ <u>640,065</u>

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET
CASH PROVIDED (USED) BY OPERATING ACTIVITIES

Net Profit or (Loss)	\$ (433,385)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:	
Depreciation	645,124
Changes in Assets (Increase) Decrease:	
Receivables (Gross)	136,094
Prepaid Expenses	(42,777)
Changes in Liabilities Increase (Decrease):	
Accounts Payable	(49,713)
Account Payable-HUD	(484,675)
Accrued Liabilities	(449,279)
Compensated Absences	28,154
Security Deposits	(1,117)
Deferred Revenue	<u>(123,340)</u>
Net Cash Provided by Operating Activities	\$ <u>123,644</u>

The Accompanying Notes are an Integral part of the Financial Statements

RIVER ROUGE HOUSING COMMISSION
Notes to Financial Statements
June 30, 2006

NOTE 1: Summary of Significant Accounting Policies

Reporting Entity-

River Rouge Housing Commission, River Rouge, Michigan, (Commission) was created by ordinance of the city of River Rouge. The Commission signed and Annual Contributions Contract (ACC) with the U.S. Department of Housing and Urban Development (HUD). The ACC requires the Commission to provide safe, sanitary and decent housing for qualifying senior and low income families.

The Commission consists of the following:

MI 8-1, 4	Low rent program	300 units
MI 28V 008	Section 8 Vouchers	249 units

In determining the reporting entity, the manifestations of oversight, as defined by the Governmental Accounting Standards Board (GASB), Cod. sec 2100, were considered. The criteria include the following:

The nucleus of the financial reporting entity as defined by the Governmental Accounting Standards Board (GASB) Statement No. 14 is the "primary government". A fundamental characteristic of a primary government is that it is a fiscally independent entity. In evaluating how to define the financial reporting entity, management has considered all potential component units. A component unit is legally separate entity for which the primary government is financially accountable. The criterion of financial accountability are the ability of the primary government to impose its will upon the potential component unit. The Financial Data Schedule lists all the programs of the Reporting Entity including component units should they exist, as defined above. Based on the above criteria, no component units exist.

These criteria were considered in determining the reporting entity.

Basis of Presentation-

The accounts of the Commission are organized by the Catalog of Federal Domestic Awards (CFDA) numbers, in the Financial Data Schedule; each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self balancing accounts that comprise its assets, liabilities, net assets, revenues, and expenditures, or expenses, as appropriate. Commission resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Notes to Financial Statements- continued

Proprietary Funds

Enterprise Funds- Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises- where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, management control, accountability, or other purposes.

Basis of Accounting-

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Proprietary Funds are accounted for using the accrual basis of accounting. The revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

Prior to October 1, 1998, the Commission followed a basis of accounting consistent with the cognizant agency, the U. S. Department of Housing and Urban Development, HUD. Those practices differed from Generally Accepted Accounting Principals (GAAP); however, for all fiscal years beginning on or after October 1, 1999, HUD has required adherence to GAAP. Therefore, the current and future financial presentations will follow GAAP and the Financial Accounting Standards Board (FASB) pronouncements issued subsequent to November 30, 1989, provided they do not interfere with Government Accounting Standards Board, (GASB) pronouncements.

Budgetary data-

Formal budgetary integration is employed as a management control device during the year in proprietary type funds. Budgets for funds are adopted on a basis consistent with generally accepted accounting principles (GAAP) for that fund type. The Commission adopts a budget annually, and amends the budgets as it feels necessary in order to maintain financial integrity.

Assets, Liabilities, and Net Assets-

Deposits & Investments

Deposits are stated at cost; the carrying amount of deposits is separately displayed on the balance sheet as cash and cash equivalents; investments are stated at cost which approximates market.

Notes to Financial Statements- continued

Cash Equivalents

Cash Equivalents represent investments purchased with a three month maturity or less; investments meeting this criteria are reclassified for financial statement purposes as cash.

Due To and Due From Other Funds

Interfund receivables and payables arise from inter-program transactions and are recorded by all funds affected in the period in which transactions are executed; all Interfund activity on the financial data schedule (FDS) have been eliminated on the upper level financial statements.

Fixed Assets

The accounting and reporting treatment applied to the fixed assets are determined by its measurement focus. All proprietary funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and all liabilities (whether current or non-current) associated with their activity are included on their balance sheets. Their reported fund equity (net total assets) is reported as Invested in Capital Assets, Net of Related Debt.

Depreciation of all exhaustible fixed assets used by proprietary funds is charged as an expense against their operations; depreciation has been provided over the estimated useful lives using the straight line method. The estimated useful lives are as follows:

Buildings and Improvements	15-40 years
Equipment	3-10 years

Compensated Absences

Sick leave and other compensated absences with similar characteristics have been accrued as a liability. The amount accrued was based on the probability that the Commission will compensate the employees for the benefits through cash payments as a condition of the employees' termination or retirement.

Note 2: Cash and Investments.

The composition of cash and investments are as follows:

Cash:

General Fund Checking Accounts	\$ 639,865
Petty Cash	<u>200</u>
Financial Statement Total	\$ <u>640,065</u>

Notes to Financial Statements- continued

Generally the Commission classifies cash and investments with the following risk assumptions:

- 1) Insured or registered in the Commission's name.
- 2) Uninsured or unregistered, held by a broker in the Commission's name.
- 3) Uninsured or unregistered, held by a broker not in the Commission's name.

	<u>Categories</u>			<u>Carrying</u>	<u>Market</u>
	<u>1</u>	<u>2</u>	<u>3</u>	<u>Amount</u>	<u>Value</u>
Cash:					
Checking A/C's	\$ 639,865	\$	\$	\$ 639,865	\$ 639,865
Petty Cash	<u>200</u>			<u>200</u>	<u>200</u>
Total Cash	\$ <u>640,065</u>	\$	\$	\$ <u>640,065</u>	\$ <u>640,065</u>

Note 3: Accounts Receivable (net)

Accounts receivable (net) consists of the following:

Accounts Receivable- HUD	\$ 49,623
Accounts Receivable- Miscellaneous	<u>5,060</u>
Financial Statement Total	\$ <u>54,683</u>

Note 4: Prepaid Expenses

Prepaid expenses consists of the following:

Prepaid Insurance	\$ <u>119,135</u>
-------------------	-------------------

Note 5: Fixed Asset Analysis.

The following represents the changes in fixed assets for the year:

	<u>Beginning</u>	<u>Additions</u>	<u>Deletions</u>	<u>End</u>
	<u>of Year</u>			<u>of Year</u>
Land	\$ 341,343	\$	\$	\$ 341,343
Buildings	3,441,197			3,441,197
Furniture & Equipment-Dwellings	140,684	19,740		160,424
Furniture & Equipment-Admin	179,444	69,631		249,075
Leasehold Improvements	<u>7,895,907</u>	<u>247,988</u>		<u>8,143,895</u>
	\$11,998,575	\$ 337,359	\$	\$12,335,934
Less Accumulated Depreciation	<u>5,597,298</u>	<u>645,124</u>	<u>25,671</u>	<u>6,242,422</u>
	\$ <u>6,401,277</u>	\$ (307,765)	\$	\$ <u>6,093,512</u>

Notes to Financial Statements- continued

Note 6: Accrued Liabilities

Accrued Liabilities consist of the following:

Accrued Wages & Benefits	\$ <u>30,100</u>
Accrued Utilities	\$ <u>21,703</u>

Note 7: Retirement.

The Commission participates in the pension plan for the City of River Rouge. The Commission contributes a percentage of eligible employees wages to a qualified pension plan. Statistics of the plan and statistical data are contained in a separate report provided by the city.

Note 8: Reclassifications.

Certain prior years' balances have been reclassified to conform to the current year's presentation.

Note 9: Combining Financial Data Schedules.

The totals in the combining Balance Sheet and Combining Income Statement represent unconsolidated totals. Under principals of consolidation, inter fund transactions would be eliminated; the totals in the combined statements follow the financial data schedule format recommended by the U.S. Department of Housing and Urban Development's Real Estate Assessment Center (REAC).

Note 10: Risk Management

The Commission is exposed to various risks of loss related to property loss, torts, error and omissions and employee injuries. The Commission purchases commercial insurance to cover the risks of these losses. The Commission had the following insurance in effect during the year:

<u>Types of Policies</u>	<u>Coverage's</u>
Property	\$ 25,311,000
General Liability	1,000,000
Automobile Liability	1,000,000
Dishonesty Bond	1,000,000
Worker's Compensation and other riders: minimum coverage's required by the State of Michigan	

River Rouge Housing Commission

30-Jun-06

MI008

Combining Balance Sheet		Low Rent 14.850	Section 8 Housing Choice Voucher Program 14.871	Capital Projects Funds 14.872	TOTAL
Line Item #					
	ASSETS:				
	CURRENT ASSETS:				
	Cash:				
111	Cash - unrestricted	163,191	476,874	-	640,065
112	Cash - restricted - modernization and developmen	-			-
113	Cash - other restricted				-
114	Cash - tenant security deposits				-
100	Total cash	163,191	476,874	-	640,065
	Accounts and notes receivables:				
121	Accounts receivable - PHA projects		1,980		1,980
122	Accounts receivable - HUD other projects	-	-	49,623	49,623
124	Accounts receivable - other government				-
125	Accounts receivable - miscellaneous	3,080	-		3,080
126	Accounts receivable- tenants - dwelling rents	50,537			50,537
126.1	Allowance for doubtful accounts - dwelling rents	(28,929)			(28,929)
126.2	Allowance for doubtful accounts - other				-
127	Notes and mortgages receivable- curren				-
128	Fraud recovery	30,557			30,557
128.1	Allowance for doubtful accounts - fraud	(30,557)			(30,557)
129	Accrued interest receivable				-
120	Total receivables, net of allowances for doubtful account	24,688	1,980	49,623	76,291
	Current investments				-
131	Investments - unrestricted	-			-
132	Investments - restricted				-
142	Prepaid expenses and other assets	119,135			119,135
143	Inventories	-			-
143.1	Allowance for obsolete inventories				-
144	Interprogram - due from	152,149	-	-	152,149
146	Amounts to be provided				-
150	TOTAL CURRENT ASSETS	459,163	478,854	49,623	987,640
	NONCURRENT ASSETS:				
	Fixed assets:				
161	Land	341,343			341,343
162	Buildings	3,441,197			3,441,197
163	Furniture, equipment & machinery - dwellings	63,780	-	96,644	160,424
164	Furniture, equipment & machinery - administratio	133,705	-	115,370	249,075
165	Leasehold improvements	7,104,615		1,039,280	8,143,895
166	Accumulated depreciation	(6,124,423)	-	(117,999)	(6,242,422)
160	Total fixed assets, net of accumulated depreciatio	4,960,217	-	1,133,295	6,093,512
171	Notes and mortgages receivable - non-curren				-
172	Notes and mortgages receivable-non-current-past due				-
174	Other assets				-
175	Undistributed debits				-
176	Investment in joint ventures				-
180	TOTAL NONCURRENT ASSETS	4,960,217	-	1,133,295	6,093,512
190	TOTAL ASSETS	5,419,380	478,854	1,182,918	7,081,152

	LIABILITIES AND EQUITY:				
	LIABILITIES:				
	CURRENT LIABILITIES				
311	Bank overdraft				-
312	Accounts payable ≤ 90 days	28,510	1,399		29,909
313	Accounts payable > 90 days past due				-
321	Accrued wage/payroll taxes payable	30,100	-		30,100
322	Accrued compensated absences	6,147			6,147
324	Accrued contingency liability				-
325	Accrued interest payable				-
331	Accounts payable - HUD PHA programs		-		-
332	Accounts Payable - PHA Projects				
333	Accounts payable - other government	-	-	-	-
341	Tenant security deposits	48,380			48,380
342	Deferred revenues	3,487	-		3,487
343	Current portion of Long-Term debt - capital projects				-
344	Current portion of Long-Term debt - operating borrowings				-
345	Other current liabilities	21,703			21,703
346	Accrued liabilities - other	-			-
347	Inter-program - due to	-	102,526	49,623	152,149
310	TOTAL CURRENT LIABILITIES	138,327	103,925	49,623	291,875
	NONCURRENT LIABILITIES:				
351	Long-term debt, net of current- capital projects				-
352	Long-term debt, net of current- operating borrowings				-
353	Noncurrent liabilities- other	-			-
354	Accr. Comp. Absences- non current	55,326			55,326
350	TOTAL NONCURRENT LIABILITIES	55,326	-	-	55,326
300	TOTAL LIABILITIES	193,653	103,925	49,623	347,201
	EQUITY:				
501	Investment in general fixed assets				-
	Contributed Capital:				
502	Project notes (HUD)	-			-
503	Long-term debt - HUD guaranteed	-			-
504	Net HUD PHA contributions	-			-
505	Other HUD contributions				-
507	Other contributions	-			-
508	Total Contributed Capital	-	-	-	-
508.1	Invested in Capital Assets, Net of Related Debt	4,960,217	-	1,133,295	6,093,512
	Reserved fund balance:				
509	Reserved for operating activities				-
510	Reserved for capital activities				-
511	Total reserved fund balance	-	-	-	-
512	Undesignated fund balance/retained earnings	-	-	-	-
512.1	Unrestricted Net Assets	265,510	374,929		640,439
513	TOTAL EQUITY	5,225,727	374,929	1,133,295	6,733,951
600	TOTAL LIABILITIES AND EQUITY	5,419,380	478,854	1,182,918	7,081,152

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River Rouge Housing Commission

30-Jun-06

MI008

Combining Income Statement		Low Rent 14.850	Section 8 Housing Choice Voucher Program 14.871	Capital Projects Funds 14.872	TOTAL
Line Item #				-	
	REVENUE:	-	-		
703	Net tenant rental revenue	449,692			449,692
704	Tenant revenue - other	32,838			32,838
705	Total tenant revenue	482,530	-	-	482,530
706	HUD PHA grants	591,464	1,597,561	718,295	2,907,320
708	Other government grants				-
711	Investment income - unrestricted	6,277	9,844	-	16,121
712	Mortgage interest income				-
714	Fraud recovery		2,890		2,890
715	Other revenue	1,762	94	-	1,856
716	Gain or loss on the sale of fixed assets	(555)			(555)
720	Investment income - restrictec				-
700	TOTAL REVENUE	1,081,478	1,610,389	718,295	3,410,162
	EXPENSES:				
	Administrative				
911	Administrative salaries	151,773	73,310	69,612	294,695
912	Auditing fees	6,320	-		6,320
913	Outside management fees				-
914	Compensated absences	28,153			28,153
915	Employee benefit contributions- administrative	92,523	21,000	22,000	135,523
916	Other operating- administrative	177,737	32,384	4,526	214,647
	Tenant services				
921	Tenant services - salaries			-	-
922	Relocation costs	-			-
923	Employee benefit contributions- tenant services			-	-
924	Tenant services - other	3,944			3,944
	Utilities				
931	Water	170,458			170,458
932	Electricity	18,252			18,252
933	Gas	32,440			32,440
934	Fuel				-
935	Labor				-
937	Employee benefit contributions- utilities				-
938	Other utilities expense	-			-
	Ordinary maintenance & operation				
941	Ordinary maintenance and operations - labor	-			-
942	Ordinary maintenance and operations - materials & other	23,701		-	23,701
943	Ordinary maintenance and operations - contract costs	448,534		61,285	509,819
945	Employee benefit contributions- ordinary maintenance	-			-
	Protective services				

[illegible]

RIVER ROUGE HOUSING COMMISSION
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2006

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Direct Programs:

	<u>Annual Program Expenditures</u>
* <u>CFDA 14.850 Public and Indian Housing</u>	
C-3031 Operating Subsidies	\$ <u>591,464</u>
* <u>CFDA 14.871 Housing Assistance Program</u>	
C-3131 Section 8 Housing Choice Program	\$ <u>1,597,561</u>
* <u>CFDA 14.872 Capital Projects Funds</u>	
C-3031 Capital Projects Program	\$ <u>718,295</u>
	\$ <u>2,907,320</u>

Significant Account Policies

The accounting policies of the Commission conform to generally accepted accounting principles as applicable to governmental proprietary funds. The financial statements contained in the Commission's annual audit report are prepared on the accrual basis of accounting; revenues are recognized when earned, expenses are recorded when the related services or product are received.

Risk management

The Commission is exposed to various risks of loss related to property loss, torts, error and omissions and employee injuries. The Commission purchases commercial insurance to cover the risks of these losses. The Commission had the following insurance in effect during the year:

<u>Types of Policies</u>	<u>Coverage's</u>
Property	\$ 25,311,000
General Liability	1,000,000
Automobile Liability	1,000,000
Dishonesty Bond	1,000,000
Worker's Compensation and other riders: minimum coverage's required by the State of Michigan	

*Connotes Major Program Category

RIVER ROUGE HOUSING COMMISSION
Status of Prior Audit Findings
June 30, 2006

The prior audit of the River Rouge Housing Commission for the period ended June 30, 2005, contained four audit findings; the following represents the status of those findings:

- 1) Tenant Accounting Discrepancies- Section 8; income verification discrepancies are still present, see findings.
- 2) Excessive Accounts Receivable- accounts receivable have decreased; however, still unacceptable- see findings.
- 3) Tenant Accounting Discrepancies- Low Rent Program; Inspections not completed, see findings.
- 4) Confirmatory Review- Commission still deemed troubled and under review, see findings.

RIVER ROUGE HOUSING COMMISSION
Report on Compliance Applicable with Requirements to
Each Major Program and on Internal Control over
Compliance in Accordance with OMB Circular A-133
June 30, 2006

Compliance

I have audited the compliance of River Rouge Housing Commission with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2006. River Rouge Housing Commission's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of River Rouge Housing Commission's management. My responsibility is to express an opinion on River Rouge Housing Commission's compliance based on my audit.

I conducted my audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about River Rouge Housing Commission's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination of River Rouge Housing Commission's compliance with those requirements.

As described in the following findings in the accompanying schedule of findings and questioned costs, the Commission failed to comply with one or more of the following compliance requirements: Activities allowed or unallowed, Allowable Costs/cost Principles, Cash Management, Davis-Bacon Act, Eligibility, Procurement, Reporting, or other compliance matters. Compliance with such requirements is necessary, in my opinion, for the Commission to comply with the requirements applicable to that program. The following programs, findings and compliance matters are detailed in the schedule of findings and questioned cost:

<u>Finding</u>	<u>Audit Number</u>	<u>Compliance Requirements</u>
Low Rent Public Housing:		
Tenant Accounting Discrepancies	05-1	Eligibility
Confirmatory Review	05-2	Activities allowed or allowable; procurement
Excessive Tenant Accounts		
Receivable	04-3	Program Income
Tier II Comprehensive Review	06-1	Eligibility, Reporting
Personal Use of Commission		
Cell Phones	06-2	Activities allowed or allowable
Credit Card Abuse	06-3	Activities allowed or allowable
Payroll Discrepancies	06-4	Activities allowed or allowable
Management Assessment for Public		
Housing Agencies Discrepancies	06-5	Reporting
Contracts not Properly Procured	06-6	Procurement

Section 8 Housing Choice Vouchers:

Tenant Accounting Discrepancies	04-1	Eligibility
Tier II Comprehensive Review	06-1	Eligibility, Reporting

In my opinion, except for the noncompliance described in the preceding paragraph, the Commission complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control over Compliance

The management of River Rouge Housing Commission entity is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing my audit, I considered River Rouge Housing Commission's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

I noted certain matters involving the internal control over compliance and its operation that I considered to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in my judgment, could adversely affect the Commission's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as referred to above.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, I believe that none of the reportable conditions described above is a material weakness.

This report is intended for the information of management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Certified Public Accountant

March 2, 2007

RIVER ROUGE HOUSING COMMISSION
Report on Compliance and on Internal Control over
Financial Reporting Based on an Audit of Financial
Statements Performed in Accordance with
Government Auditing Standards
June 30, 2006

I have audited the financial statements of River Rouge Housing Commission, River Rouge, Michigan, as of and for the year ended June 30, 2006, and have issued my report thereon dated March 2, 2007. I conducted my audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether River Rouge Housing Commission's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, I do not express such an opinion. The results of my tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards; see the findings and questioned cost section of this audit report.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered River Rouge Housing Commission's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I did not note any instances which may be considered weaknesses that are required to be reported under Government Auditing Standards.

This report is intended for the information of management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Certified Public Accountant

March 2, 2007

RIVER ROUGE HOUSING COMMISSION
Schedule of Findings and Questioned Cost
June 30, 2006

1) Summary of Auditor's Results:

Programs:

	<u>Major Program</u>	<u>Non Major Program</u>
Low income Public Housing	X	
Housing Assistance Program	X	
Capital Projects	X	

Opinions:

General Purpose Financial Statements-

Unqualified

Material weakness(es) noted _____ Yes X No

Reportable condition(s) noted _____ Yes X No

Non Compliance material to financial statements noted _____ Yes X No

Report on compliance for Federal programs-

Qualified

Material weakness(es) noted _____ Yes X No

Reportable condition(s) noted X Yes _____ No

Non Compliance material to financial statements noted _____ Yes X No

Thresholds:

Dollar limit used to determine type A & B programs- \$ 300,000

The Auditee did not qualify as a low risk auditee.

<u>Name of Federal Program</u>	<u>Major Program</u>	<u>Questioned Costs</u>	<u>Audit Finding Number</u>
Low Rent Public Housing	Yes	None	04-3; 05-1; 05-2; 06-1 06-2; 06-3 06-4; 06-5 06-6
Housing Assistance Program	Yes	None	04-1; 06-1
Capital Projects Funds	Yes	None	N/A

RIVER ROUGE HOUSING COMMISSION
Schedule of Findings, Recommendations and Replies
June 30, 2006

The following finding of the River Rouge Housing Commission, for the year ended June 30, 2006, were discussed with the Acting Director, Daryl Rush, in an exit interview conducted March 2, 2007.

Finding 04-1: Tenant Accounting Discrepancies- Section 8 Housing Choice Program

18 files were reviewed, the following discrepancies were noted:

2 files had incomplete leases; 2 files lacked rent reasonableness tests, 3 files lacked proper income verification.

This is a repeat finding.

Recommendation

The last audit contained tenant accounting discrepancies which included similar errors-income verification; the reply was to implement a monitoring system to insure compliance.

I recommend the Commission reconsider the monitoring system; the above errors indicate the system still needs attention.

Reply

After discussing the aforementioned finding with our Section 8 Coordinator, it was revealed that the two (2) leases were obtained from the landlords and have been placed in the tenant files now. Rent reasonableness tests are done on an annual basis with each tenant and it is not clear as to why they were not present in the files that the auditor reviewed. However, all tenant files are in the process of being reviewed by the Section 8 Coordinator and all corrections and proper verifications will be made.

Finding 4-3: Excessive Tenants Accounts Receivable

The Commission's tenant accounts receivable remains at an unacceptable level; the average per unit outstanding balance is \$ 168., however, the retro active rent is an additional \$ 101 per unit. HUD prescribes an average of \$ 15 per unit to be reasonable.

This is a repeat finding.

Recommendation

The Commission started using the up front verification system; the result was that many families had unreported income- the current accounts receivable did not change over the prior year (average 2005 \$ 163, average 2006 \$ 168).

The retro active rent (fraud) balance did decrease slightly from an average of \$ 161 per unit to \$ 101.

Obviously the level of accounts receivable is unacceptable; even with repayment agreements it will take years to recover from retro-active rent recorded in the current year. In addition, the current accounts receivable have not decreased in the past year and remain too high.

I would recommend HUD consider waiving the past due rent if the tenant would bring their current balance up to date, or some other allowance which allows the current tenants to continue if paid in full. Otherwise the Commission will have failing scores for years trying to catch up; an alternative would be to enforce a strict payment plan and start evicting tenants for late payments. I recommend the Commission begin enforcing the collection policy and work with HUD to try and resolve the past due amounts.

Reply

As the auditor stated there was a slight decrease in our retro active rent (fraud) balances, and an increase in our current account receivables. We have made an extensive effort in collecting the rents of our current tenants. Cases are taken to court every month for rent collections. We have a core group of tenants who, no matter how large or small their balances, continue to allow the process to extend all the way to the actual eviction day before they pay their balance. Even though the balance on the court notice is paid, they are already behind in their rent payment for the next month, therefore they never achieve a zero balance and the rent owed is constantly ongoing. At this month's meeting we will be asking our Board of Commissioners for approval to proceed with a Collection Agency in order to collect on bad debtors that we can't locate. We concur with the auditor's assessment that it will take years to reduce the account receivables balance with the best rent collection efforts. In January of this year we sent out notices to everyone who had a balance other than rent that has been ongoing. Such balances include utilities owed to the Commission, uncollected maintenance charges, late fees, legal fees and retro rent balances. We had a positive response in which several tenants paid all their charges. The only other remedy we see is as the auditor stated, start evicting tenants for late payments. That would solve one problem but create another one as far as large vacancy rates.

Finding 5-1: Tenant Accounting Discrepancies- Low Rent Program

A review of 10 tenant files revealed the following discrepancies:

No inspections were completed during the fiscal year; this is a repeat finding.

Recommendation

Last year inspections were incomplete and unfilled; this year the same situation exists, however, no inspections have been conducted.

I recommend the Commission either hire an inspection company to complete the inspections, or hire personnel in house to conduct the required inspections.

Reply

Prior to 2004 the UPCS inspections were done by the Public Housing Manager. In 2004 the newly hired Executive Director wanted to get a feel for the condition of the units, so she did some inspections herself and then instructed the rest of the inspections be done by the Secretary/Bookkeeper, Administrative Clerk and another staff person. Together they inspected all 300 units in February of 2004, filled out the inspection forms and let them sit in the office. In 2005 the Executive Director then instructed the Public Housing Manager to resume his role as inspector, but did not assign anyone to replace the Capital Fund assistant, whose job was to dispatch contractors to correct any failed items, then set up re-inspections for the housing manager. Afterwards she would enter that information into a inspection log book, then file the completed inspections in the tenant's maintenance file.

At our regular housing commission meeting this month we will be hiring an inspector to conduct low income housing and Section 8 inspections.

Finding 5-2: Confirmatory Review

The Commission became troubled in fiscal year 2004 and HUD ordered a confirmatory review; a firm by the name of Mitchell & Titus conducted the review in 2005. The report mentioned numerous deficiencies and HUD proposed a memorandum of agreement (MOA).

Recommendation

The Commission has some obvious problems; excessive accounts receivable, non compliance in both the Low Rent Program and Section 8 files, some procurement concerns, etc. In the past year, the director was terminated and the Commission continued to respond to the confirmatory review.

I recommend that the Commission continue to work with HUD to resolve the issues discussed in the MOA.

Reply

We are continuing to work with HUD on the MOA. We have submitted a report to them for the period ending 01/31/07, and we are awaiting approval on 21 policies that were submitted for their review. We will continue to update the monthly MOA report to include items that we complete. Many of the areas in the confirmatory review are covered in the MOA agreement.

Finding 6-1: Tier II Comprehensive Review

The Commission was selected for a Tier II Comprehensive Review which was conducted in May 2006; HUD issued its report October 2006. The report contained many findings; the Commission is already operating under a Memorandum of Agreement (MOA).

Recommendation

The findings reported in the Review are consistent with findings observed during the course of this audit; tenant accounting discrepancies, PHAS and MASS documentation discrepancies, etc.

I recommend the Commission continue to work with HUD to correct the findings cited in the Comprehensive Review.

Reply

Staff has reviewed the tenant files in both the Section 8 Housing Choice Voucher program and our Low Rent Housing program to correct the deficiencies that were listed in the Tier II Comprehensive Review, such as EIV and RIM review corrections regarding income verifications, rent calculations etc. The Dept. of HUD also revealed several concerns in regards to issues dealing with the integrity of the office. We have adopted several policies and have put into practice some measures that will address those concerns. We are in the process of revamping the waiting list, developing a more stringent work order system, and hiring an inspector to deal with the MASS discrepancies.

Finding 6-2: Personal Use of Commission Cell Phones

The previous Director issued cell phones to several employees and an outside contractor. The arrangement was supposed be the employees and contractor would reimburse the Commission for any personal use of the cell phone. At the end of the fiscal year, \$ 1,190 was owed on the cell phones.

Recommendation

The arrangement for the cell phones was not well defined, there was no monitoring of the excess use; some reimbursements were made by the staff, however, payments did not agree with the total charges by phone. Since the charges were never disclosed to the employees, and no collection effort made by management, the remaining balance may be difficult to assess. The contractor's charges have never been paid and he is no longer available.

After year end, management discontinued the cell phones- they have been converted into the names of the employees directly, therefore, additional charges are billed directly to the employees.

I recommend the Commission discontinue such practices of providing cell phones to the staff, or if phones are issued no personal use be allowed; as for the existing balance, if the correct amount due can be established- it should be repaid by the employee. However, the cost to determine the balance must be weighed against the potential collection- it may be too time consuming to research the past bills and assess the balance due.

Reply

The practice of employees using commission cell phones has been eliminated. The cell phones have been shut off for the contractor and other employees. The only employees who have cell phones are the Interim Executive Director and the Contracting Officer. The commission will address the balance owed to housing by the employees once we can establish what the actual balance is. As the auditor previously stated it may very difficult to do because payments were made, but they were inconsistent with the charges that were billed by Nextel. It may be too time consuming to go back and determine what calls were made by one employee who claims that she had an agreement with the previous executive director that stated she would only have to pay for personal calls on the bill because she was doing inspections for the Section 8 residents who lived on the east side, and housing would pay for the calls made by landlords and residents.

Finding 6-3: Credit Card Abuse

The previous Director and an employee had used the Commission Credit Card for personal use; the charges were repaid by the employee, however a balance remains for the past Director.

Recommendation

The Director was terminated and has since brought a wrongful discharge suit against the Commission; in addition, the Inspector General's (IG) office is in the process of conducting an investigation into the practices of the previous Director.

I recommend the Commission coordinate its legal efforts with the IG; collection of the improper charges should be pursued when all interest have been satisfied.

Reply

We have developed a Credit Card policy and submitted it to HUD for their review and approval. As previously stated by the auditor the previous executive director has been terminated and she is currently suing the commission for violation of her rights under the Whistle Blower's Act. Once this matter is resolved the commission plans to pursue legal means to recoup all monies owed by her to the commission, and we will coordinate our efforts with HUD's Inspector General's office.

Finding 6-4: Payroll Discrepancies

A review of the payroll system revealed the following discrepancies:

- Sick leave was not always recorded correctly on the sick leave log
- Vacation was awarded to the staff without board approval and in violation of the personnel policy
- Errors appeared on the time cards that were unaddressed by the Director
- A payroll was voided by the Director and all checks reissued; the Director cashed her check from both the voided payroll run and the reissued check

Recommendation

The above errors demonstrate a lack of attention by management concerning employees time; many time cards showed late check-in, early check-out, missed punches, and errors in recording employee sick leave. Some notations were recorded by the Director on the time cards suggesting the employee would be docked for being late; but the payroll journal would pay the full number of hours without any penalty.

The Director gave every employee with two years service 15 days vacation at the first of the year; the policy calls for all eligible employees to receive 10 days vacation. In addition to the excess vacation days awarded, some employees were allowed to carry existing vacation days over; the policy states employees may carry over 5 days vacation if they request that in writing, otherwise unused vacation days are lost.

A dispute arose over a holiday in February 2006, after the Commission had received the payroll run; the Director instructed the payroll service to void the entire payroll run and re-issue the payroll. The Service requested the checks be returned and reran a corrected payroll. All checks were returned except for the Director's check which was cashed; the following month the fee accountant realized the check had been cashed and recorded it as an account receivable from the Director.

As of the date of this audit, the amount remains unpaid; the Director was terminated before the cashed check was discovered. I recommend the Commission enforce the existing policies concerning employees; the personnel handbook states the normal hours of operations, expected employee behavior, sick and vacation time earned, etc. Management needs to monitor the employees time and hold them accountable- otherwise, the use of a time clock should be discontinued.

Reply

One of the policies that were submitted for HUD's review and approval is the Personnel Policy. The commission will abide by that policy which has not changed from the previous policies' designation of allotted vacation time (2 weeks) and sick time. We will return back to that format during this current calendar year. The previous director demanded that employees work late when necessary to get the job done. Instead of paying them overtime she granted them comp time. She kept a log of comp time for each employee that worked overtime without pay. The commission has since discontinued the use of comp time and does not require staff to work overtime. Payrolls are submitted monthly along with the bill journal in the housing commissioner's agenda packet. Submitting them weekly may be more effective.

Finding 6-5: Management Assessment for Public Housing Agencies Discrepancies

The Management Assessment for Public Housing Agencies requires a number of responses which are supported by documents maintained by the Commission; some of the underlying documentation was inaccurate.

Recommendation

One category required on the Management Assessment for Public Housing Agencies concerns inspections; as stated in finding 5-1 above, no inspections were conducted during the fiscal year, however, the report states all units were inspected.

I recommend the Commission develop systems to record the required data for the Management Assessment for Public Housing Agencies, and accurately report the results.

Reply

Once the inspector is hired, they will be required to develop an inspection log like we use to have. Inspections will be done timely every month and any failed items will be corrected within 30 days (emergency work orders will be completed in 24 hours) and that will be logged into the system for reporting.

Finding 6-6: Contracts not Properly Procured

A review of contracts indicates that some contracts were awarded without proper bidding procedures. The procurement policy requires contract exceeding certain dollar amounts require formal bids for the Commission to consider.

Recommendation

The previous Director awarded a number of contracts, not as a part of the Capital Fund Project, to individuals or companies without following the procurement policy requirements. The procurement policy requires competitive bids be considered when a contract exceeds certain dollar thresholds; the purpose is to afford the Commission the opportunity to evaluate the proposals and to chose the most qualified for the price offered. Awards that don't follow the policy may be cost effective, however, without competitive bids the awards may not be cost effective or in the best interest of the Commission.

I recommend the Commission follow the procurement policy and use competitive bidding when required by the policy.

Reply

All contracts have been extended from the previous bid that was completed in May of 2004 and expired in April of 2005. The current contract will expire in April of 2007 and we are awaiting approval from HUD on the Maintenance Cost Analysis that determines that it is still more feasible to continue without outside maintenance as opposed to hiring in house maintenance staff.